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14 September 1972

MEMORANDUM FOR: Deputy Director for Intelligence

SUBJECT : Newspaper Accounts of U.S. Wheat Sales
to China

1. This morning's New York Times (p. 1) and Washington Post (p. A26) both carry reports of U.S. wheat sales to China but differ on the amounts and other details of the sale. According to the Post story, the amount involved is 20 million bushels (540,000 tons), worth nearly \$40 million at current world prices. We believe the details of the Post article are accurate except that Chinese imports from Canada this year are likely to be nearer 4 million than 5 million tons.

7 million
400,000 to
500,000

2. In recent years China has imported 4 million to 5 million tons of wheat from non-Communist suppliers as a convenient way of feeding its large northern and eastern cities; last year the amount dipped to 3.25 million tons because of the good 1970 harvest and a drive to conserve foreign exchange, but this year the amount will return to the normal range.

3. The articles do not specify the time of delivery of the U.S. grain. We doubt that Peking has pressing need for large additional amounts of grain in 1972 beyond the 4 million Canadian tons already scheduled. Even if additional amounts do not seem essential at this time, they can serve useful purposes such as building up reserve stocks, hedging against unanticipated harvest losses, and lubricating relations with key foreign countries.

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Director
Economic Research

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MAINLAND CHINA REPORTED BUYING FIRST U.S. WHEAT

Butz May Announce the Deal
Today — Purchase Might
Reach 500,000 Tons

By E. W. KENWORTHY
Special to The New York Times

WASHINGTON, Sept. 13 — Secretary of Agriculture Earl L. Butz is expected to announce tomorrow the first sale of American wheat to China.

Representative Graham Purcell, Democrat of Texas, said that he would not be surprised if Mr. Butz announced the sale at the opening of hearings tomorrow by the House Agriculture Subcommittee on Livestock and Grains into possible windfall profits by exporters from the Soviet-American wheat deal.

Only 'Token Sale Now'

According to The Southwestern Miller Report, a grain trade journal in Kansas City, which reported today the imminent opening of grain sales to China, the initial sale is 400,000 to 500,000 tons, or 14.5 million to 18 million bushels.

Compared with the 400 million bushels bought by the Soviet Union under the deal announced by President Nixon and Mr. Butz on July 8, the sale to China is relatively small.

Robert Breithaupt, an officer of the Sosland Company, which publishes The Southwestern Miller Report, said of the prospective sale to the mainland Government:

"A year ago it would have been huge. It's a token sale now, but the one that breaks the ice."

Mr. Breithaupt and Melvin Sjervin, another official of the company, also confirmed reports circulating in Washington that the export firm that negotiated the sale was Louis Dreyfus Corporation of New York City.

"The market activity points to them," said Mr. Breithaupt.

The way the Export Marketing Service of the Department of Agriculture learns of such foreign sales is through the receipt of applications from American grain exporters for subsidies.

These subsidies, called "equalization payments," are designed to make American grain competitive on the world market. The subsidy amounts to the difference between the domestic price and the lesser world price. The subsidy, which is authorized by the 1948 charter of the Commodity Credit Corporation is set daily.

There have been rumors here, which the Export Marketing Service would neither deny nor confirm, that Dreyfus has applied for export subsidies for a sale to China.

The whole subject of export subsidies on the Soviet deal is expected to get a thorough airing in the three days of hearings.

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CHINESE REPORTED BUYING U.S. WHEAT

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ings scheduled by Representative Purcell.

He and several other members of Congress, as well as the National Farmers Union and Consumers Union, have charged that the big six exporters supplying the wheat under the United States-Soviet deal made upward of \$100-million out of a "special subsidy" arising from the magnitude of the deal.

This is how they explain the total of \$100-million:

It has been the policy of the Department of Agriculture to try to hold world prices at \$1.63 to \$1.65 a bushel by guaranteeing a subsidy between that price and the United States domestic price. The Russians are believed to have contracted to buy at about \$1.63.

However, in August, as the extent of Soviet purchases began to be known, the domestic price began to rise sharply from an average of \$1.76 in July to \$2.05.

World Price Also Rises

The world price also rose, from \$1.63 to \$1.69. However, the Agriculture Department continued paying a subsidy based on the \$1.63 world price.

On Aug. 25, the department announced that it could no longer try to hold the world price at \$1.63 because of the stimulus to prices caused by the size of the Soviet purchases and the unavailability of wheat elsewhere.

At the same time it took the position it would be only fair to pay a subsidy based on \$1.63 to those exporters who had completed transactions but not yet applied for subsidies.

Consequently, the department said that for a period of one week, from Aug. 25 until Sept. 1, it would grant a subsidy of 47 cents a bushel, representing the difference between a domestic price of \$2.10 on Aug. 24 and the base of \$1.63, on all completed transactions.

\$131.6-Million in Week

In that week, 280 million bushels were registered for the 47-cent subsidy—a total of \$131.6-million.

The critics insist that most of this grain was purchased during July, when the domestic price was \$1.76 and the subsidy only 14 cents. The difference between the 47 cents and 14 cents on the 280 million bushels, they say, would amount to \$92.4-million—all borne by the taxpayers.

The National Farmers Union also asserts that farmers in the early-harvest states—Texas, Oklahoma and Kansas—sold their winter wheat in July at about \$1.32 a bushel for export because they were unaware that the Soviet Union would make such large purchases so soon. As a result, they probably lost more than \$66-million by not holding their wheat until August.

On the domestic wheat allotment—about 45 per cent of production—the union says that early sales also cost the farmers \$54-million through reduced Federal payments.

Presumably China is paying today's world price of about \$1.95 to \$1.98 a bushel. And presumably Dreyfus will get a present subsidy of about 27 cents a bushel. However, if it bought the wheat in July at \$1.63 and registered it for subsidy during the Aug. 25-Sept. 1 period the company could get a subsidy of 47 cents a bushel.

The Purcell subcommittee is expected to question Mr. Butz aggressively on all this tomorrow.

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U.S. and China In Wheat Deal

By Donald M. Kendall
Associated Press

Government sources said yesterday that the United States has sold some wheat to China, the first American grain sale to that country in more than 20 years.

The sources, asking not to be identified, said at least one U.S. export company is involved. The Agriculture Department declined comment.

According to the sources, however, the department has received applications for export subsidies on wheat to be shipped to China.

Secretary of Agriculture Earl Butz, questioned after a speech at "Farmfest U.S.A." in Vernon Center, Minn., said that if a deal was pending or already concluded, he was unaware of it. He said, however, that "Down the road sometime is a substantial trade agreement with China. I don't know how close it will be. The President opened the door a little bit with his China trip."

He also said a deal conceivably could have been made by a private company and the government would not necessarily know of it, especially if the company had a European subsidiary. The deal was reported yesterday evening as "solid."

Subsidies are paid to exporters to make U.S. wheat more competitive on the world market. Rumors have circulated in the grain trade that China has ordered at least 20 million bushels of U.S. wheat. Nixon administration officials have

been predicting for some time that China soon would open up as a new U.S. farm export market.

Late yesterday, official sources said that an American grain firm has received an order from the Peoples Republic of China for the delivery of 20 million bushels of grain. It is expected that payment would be made in dollars, as is the case for the purchase of 10 jet airliners from Boeing by the Peking government for \$150 million.

(U.S. specialists speculate that the Chinese may be purchasing American wheat as a token political gesture rather than out of any real need. China is expected to import five million tons of wheat this year from Canada. The Chinese harvest this year has also been good.

In past years the Chinese have imported wheat from Canada, Australia, France and other countries, partly because of their internal transport problems. Foreign wheat has been delivered to China's port cities, which are far from grain-growing areas of the interior.

The unofficial report of wheat sales to China came on the eve of a congressional hearing on the question of earlier, much larger wheat sales to the Soviet Union.

Those sales, amounting to 400 million bushels, helped push wheat prices up sharply this summer.